

**VILLAGE OF ADDISON  
LENAWEE COUNTY, MICHIGAN  
ANNUAL FINANCIAL REPORT  
FEBRUARY 28, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name ADDISON	County LENAWEE
Fiscal Year End FEBRUARY 28, 2006	Opinion Date MAY 5, 2006	Date Audit Report Submitted to State JUNE 6, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


2006

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) PHILIP R. RUBLEY, CPA		Telephone Number 517-458-2274	
Street Address 133 W. MAIN STREET		City MORENCI	State MI
Zip 49256			
Authorizing CPA Signature 		Printed Name PHILIP R. RUBLEY	License Number 9223

**VILLAGE OF ADDISON  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED FEBRUARY 28, 2006**

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**VILLAGE OF ADDISON**  
**Management's Discussion and Analysis**  
**February 28, 2006**

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**Using This Annual Report**

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities are both new and provide information about the activities of Village of Addison, Michigan government-wide basis. They are designed to present a longer-term view of the Village's finances. Fund financial statements tell how services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

**Overview Of The Financial Statements**

The Village's basic financial statements are comprised of three components:

- A) Government-wide financial statements.
- B) Fund financial statements.
- C) Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Village's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The Village maintains 6 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, major street, local street and each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Village adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

**Proprietary Funds.** The Village maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Village uses enterprise funds to account for its wastewater and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Village's various functions. The Village uses an internal service fund to account for its public works and general maintenance equipment. Because this service predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

**VILLAGE OF ADDISON**  
**Management's Discussion and Analysis**  
**February 28, 2006**

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**Notes To The Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement of some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Village include general government, public safety, public works, parks and recreation and community development. The business-type activities of the Village include water and waste water activities reflected in the utilities fund.

The government-wide financial statements include only the Village itself (known as the *primary government*).

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories; governmental funds and proprietary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

#### **Other Information**

The Village has reported under required supplementation information, information about the General Fund and Major Type Funds, and Combining Balance Sheets and Statement of Revenues, Expenditures and Changes in Fund Balances - Non-Major Type Governmental Funds.

**VILLAGE OF ADDISON**  
**Management's Discussion and Analysis**  
**February 28, 2006**

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**The Village As A Whole**

The Village's net assets for the year ended February 28, 2006 decreased by 4.5% over the prior year. The net results of the township can be partly attributable to Michigan's over all economy. The Village has received less revenue and increased costs of services resulting in decreases in net assets.

The governmental activities reflect net assets of \$499,159 and the business-type (utilities) of \$594,749.

By far the largest portion of the Village's net assets (67 percent) reflects its investment in capital assets (e.g. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire these assets that are still outstanding. The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Village's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**VILLAGE OF ADDISON**  
**Management's Discussion and Analysis**  
**February 28, 2006**

**VILLAGE OF ADDISON NET ASSETS**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2006</u>	<u>2006</u>	<u>2006</u>
<b><u>Revenue</u></b>			
Program Revenue:			
Charges for Services	\$ 46,489	\$119,811	\$ 166,300
Operating Grants and Contributions	55,039	---	55,039
Capital Grants and Contributions	1,625	---	1,625
General Revenue:			
Property Taxes	103,661	41,538	145,199
Grants and Contributions Not Restricted To Specific Program	62,747	---	62,747
Other	<u>10,911</u>	<u>5,010</u>	<u>15,921</u>
<b>Total Revenue</b>	<u>280,472</u>	<u>166,359</u>	<u>446,831</u>
<b><u>Expenses</u></b>			
General Government	60,351	---	60,351
Public Safety	61,656	---	61,656
Public Works	111,907	---	111,907
Community and Economic Development	2,117	---	2,117
Recreation and Culture	15,080	---	15,080
Interest on Long-Term Debt	---	20,870	20,870
Utilities Expenses	---	172,733	172,733
Other	<u>45,277</u>	<u>---</u>	<u>45,277</u>
<b>Total Expenses</b>	<u>296,388</u>	<u>193,603</u>	<u>489,991</u>
<b>Increase (Decrease) In Net Assets</b>	(15,916)	(27,244)	(43,160)
<b>Net Assets Beginning of Year</b>	<u>515,375</u>	<u>621,993</u>	<u>1,137,368</u>
<b>Net Assets End of Year</b>	<u>\$499,459</u>	<u>\$594,749</u>	<u>\$1,094,208</u>



**VILLAGE OF ADDISON**  
**Management's Discussion and Analysis**  
**February 28, 2006**

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**VILLAGE OF ADDISON NET ASSETS**

	<b><u>Governmental Activities</u></b>	<b><u>Business-Type Activities</u></b>	<b><u>Total</u></b>
	<b><u>2006</u></b>	<b><u>2006</u></b>	<b><u>2006</u></b>
Current and Other Assets	\$ 91,343	\$ 267,748	\$ 359,091
Capital Assets	<u>416,307</u>	<u>1,000,627</u>	<u>1,416,934</u>
<b>Total Assets</b>	<u>507,650</u>	<u>1,268,375</u>	<u>1,776,025</u>
Long-Term Liabilities Outstanding	---	664,500	664,500
Other Liabilities	<u>8,191</u>	<u>9,126</u>	<u>17,317</u>
<b>Total Liabilities</b>	<u>8,191</u>	<u>673,626</u>	<u>681,817</u>
<b><u>Net Assets</u></b>			
Invested in Capital Assets, Net of Related Debt	416,307	336,127	752,434
Restricted	---	43,899	43,899
Unrestricted	<u>83,152</u>	<u>214,723</u>	<u>297,875</u>
<b>Total Net Assets</b>	<u>\$499,459</u>	<u>\$ 594,749</u>	<u>\$1,094,208</u>

**Government Activities**

Government activities decreased the Village's net assets by \$15,916.

**Business-Type Activities**

Business-type activities decreased the Village's net assets by \$27,244.

**The Village's Funds**

Our analysis of the Village's funds begins on Page 9, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council and management creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages, etc.

**VILLAGE OF ADDISON**  
**Management's Discussion and Analysis**  
**February 28, 2006**

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**General Fund Budgetary Highlights**

Differences between the original budget and amended budget were insignificant. Expenses between original budget and amended budget were relatively minor.

**Capital Assets And Debt Administration**

The Village's investment in capital assets for its governmental and business-type activities as of February 28, 2006, amounted to \$1,416,934 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the Village's investment in capital assets for the current year was 5%.

Long-term debt of the Village decreased by \$33,750 (see Note 8 of the basic financial statements). There was no new debt incurred in the fiscal year ended February 28, 2006.

**Economic Factors And Next Year's Budget And Rates**

The Village's budget for 2006-2007 fiscal year has taken inconsideration, the economic condition of the State of Michigan anticipating reduced state share revenues. This will require close tabs on expenditures for the upcoming year and adjustments will be made to mirror, when possible, the revenue base, with expenses.

**Contacting The Village's Management**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at 103 ½ W. Main St., Addison, Michigan 49220.

# PHILIP R. RUBLEY

- Certified Public Accountant -

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PHILIP R. RUBLEY, C.P.A.

MEMBERS OF  
AMERICAN INSTITUTE OF C.P.A.'s  
& THE MICHIGAN ASSOCIATION OF C.P.A.'s

May 5, 2006

Honorable Mayor and Members  
Of The Village Council  
Village of Addison  
Addison, MI 49220

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Addison, Michigan as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Addison, Michigan, management. Our responsibility is to express opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and the business-type activities. Each major fund, and the aggregate remaining fund information of the Village of Addison, Michigan, as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

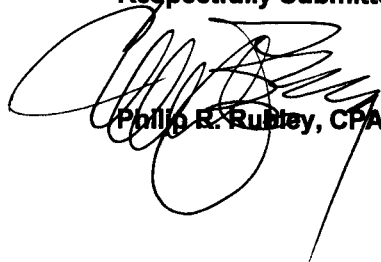
The management's discussion and analysis and budgetary comparison information on pages 1 through 6, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Addison, Michigan basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Village of Addison  
May 5, 2006

The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully Submitted,



Philip R. Rubley, CPA

PRR/cab

**VILLAGE OF ADDISON**  
**Government-wide Statement of Net Assets**  
**February 28, 2006**

	<b><u>Governmental Activities</u></b>	<b><u>Business-Type Activities</u></b>	<b><u>Total</u></b>
<b><u>Assets</u></b>			
Cash and Equivalents	\$ 64,101	\$ 192,535	\$ 256,636
Receivables - Net	21,037	23,995	45,032
Inventory	---	7,319	7,319
Prepaid Items and Other Assets	6,205	---	6,205
Restricted Cash	---	43,899	43,899
Capital Assets Not Being Depreciated	20,876	---	20,876
Capital Assets Being Depreciated - Net	<u>395,431</u>	<u>1,000,627</u>	<u>1,396,058</u>
<b>Total Assets</b>	<u>507,650</u>	<u>1,268,375</u>	<u>1,776,025</u>
<b><u>Liabilities</u></b>			
Accounts Payable and Accrued Expenses	8,191	9,126	17,317
Long-Term Liabilities: Due Within One Year	---	34,500	34,500
Due In More Than One Year	<u>---</u>	<u>630,000</u>	<u>630,000</u>
<b>Total Liabilities</b>	<u>8,191</u>	<u>673,626</u>	<u>681,817</u>
<b><u>Net Assets</u></b>			
Invested In Capital Assets, Net of Related Debt	416,307	336,127	752,434
Replacement	---	43,899	43,899
Unrestricted	<u>83,152</u>	<u>214,723</u>	<u>297,875</u>
<b>Total Net Assets</b>	<u>\$499,459</u>	<u>\$ 594,749</u>	<u>\$1,094,208</u>

**VILLAGE OF ADDISON**  
**Government-wide Statement of Activities**  
**For The Year Ended February 28, 2006**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants And Contributions</u>	<u>Capital Grants And Contributions</u>	<u>Net (Expenses) Revenues</u>
<b>Primary Government</b>					
<b><u>Governmental Activities:</u></b>					
General Government	\$ 60,351	\$ 26,233	\$ ---	\$ ---	\$ (34,118)
Public Safety	61,656	---	---	---	(61,656)
Public Works	111,907	20,256	55,039	---	(36,612)
Community and Economic Development	2,117	---	---	---	(2,117)
Recreation and Culture	15,080	---	---	1,625	(13,455)
Other	45,277	---	---	---	(45,277)
<b>Total Governmental Activities</b>	<u>296,388</u>	<u>46,489</u>	<u>55,039</u>	<u>1,625</u>	<u>(193,235)</u>
<b><u>Business-Type Activities:</u></b>					
Utilities	<u>193,603</u>	<u>119,811</u>	<u>---</u>	<u>---</u>	<u>(73,792)</u>
<b>Total Business-Type Activities</b>	<u>193,603</u>	<u>119,811</u>	<u>---</u>	<u>---</u>	<u>(73,792)</u>
<b>Total Primary Government</b>	<u>\$489,991</u>	<u>\$166,300</u>	<u>\$55,039</u>	<u>\$1,625</u>	<u>\$ (267,027)</u>

**VILLAGE OF ADDISON**  
**Government-wide Statement Of Activities (Concluded)**  
**For The Year Ended February 28, 2006**

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	<u>Primary Government</u>		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>Changes In Net Assets</u></b>			
Net (Expense) Revenue	\$ (193,235)	\$ (73,792)	\$ (267,027)
General Revenues:			
Property Taxes	103,661	41,538	145,199
Grants and Contributions Not Restricted To Specific Programs	62,747	---	62,747
Unrestricted Investment Earnings and Rentals	<u>10,911</u>	<u>5,010</u>	<u>15,921</u>
<b>Total General Revenues, Contributions and Transfers</b>	<u>177,319</u>	<u>46,548</u>	<u>223,867</u>
<b>Change In Net Assets</b>	(15,916)	(27,244)	(43,160)
<b>Net Assets, Beginning of Year</b>	<u>515,375</u>	<u>621,993</u>	<u>1,137,368</u>
<b>Net Assets, End of Year</b>	<u>\$ 499,459</u>	<u>\$594,749</u>	<u>\$1,094,208</u>

**VILLAGE OF ADDISON**  
**Governmental Funds**  
**Balance Sheet**  
**February 28, 2006**

	<b><u>General Fund</u></b>	<b><u>Major Street Fund</u></b>	<b><u>Local Street Fund</u></b>
<b><u>ASSETS</u></b>			
Cash and Cash Equivalents	\$32,864	\$5,274	\$17,861
Prepaid Expenses	6,205	---	---
Receivables - Net	21,037	---	---
Due From Other Funds	---	---	---
<b>Total Assets</b>	<b><u>\$60,106</u></b>	<b><u>\$5,274</u></b>	<b><u>\$17,861</u></b>
<b><u>LIABILITIES</u></b>			
Accounts Payable/Accrued Liabilities	\$ 7,551	\$ 70	\$ 37
Due to Other Funds	49,875	---	---
Deferred Income	3,247	---	---
<b>Total Liabilities</b>	<b><u>60,673</u></b>	<b><u>70</u></b>	<b><u>37</u></b>
<b><u>FUND BALANCES</u></b>			
Unreserved (Deficit)	<u>(567)</u>	<u>5,204</u>	<u>17,824</u>
<b>Total Fund Balances (Deficit)</b>	<b><u>(567)</u></b>	<b><u>5,204</u></b>	<b><u>17,824</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$60,106</u></b>	<b><u>\$5,274</u></b>	<b><u>\$17,861</u></b>

The notes to financial statements are an integral part of this statement.



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**Other  
Non-Major  
Governmental  
Funds**

\$ 8,052  
---  
---  
3,300

\$11,352

\$ ---  
---  
---  
---

11,352

11,352

\$11,352

**Total  
Governmental  
Funds**

\$64,051  
6,205  
21,037  
3,300

\$94,593

\$ 7,658  
49,875  
3,247

60,780

33,813

33,813

\$94,593

**VILLAGE OF ADDISON**  
**Reconciliation of Fund Balances On The Balance Sheet For Governmental Funds**  
**To Net Assets Of Governmental Activities On The Statement of Net Assets**  
**February 28, 2006**

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**Fund Balances – Total Governmental Funds**

\$ 33,813

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

**Add:** Capital Assets

848,418

**Deduct:** Accumulated Depreciation

(432,111)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

**Add:** Net assets of governmental activities accounted for in the internal service fund.

46,092

Certain liabilities, such as bonds payable, notes payable, are not due and payable in the current period and therefore are not reported in the funds.

**Deduct:** Receivable Adjustments - Deferred Revenue

3,247

**Net Assets of Governmental Activities**

\$ 499,459

**VILLAGE OF ADDISON**  
**Governmental Funds**  
**Statement of Revenue, Expenditures, and Changes in Fund Balances**  
**For The Year Ended February 28, 2006**

	<b><u>General Fund</u></b>	<b><u>Major Street Fund</u></b>	<b><u>Local Street Fund</u></b>
<b><u>REVENUES</u></b>			
Taxes	\$ 74,941	\$ ---	\$ 25,473
Intergovernmental	62,747	43,011	12,028
Charges for Services	22,132	---	---
Interest and Rentals	388	---	243
Contributions	---	---	---
Other	<u>4,101</u>	<u>---</u>	<u>---</u>
<b>Total Revenue</b>	<u>164,309</u>	<u>43,011</u>	<u>37,744</u>
<b><u>EXPENDITURES</u></b>			
Current:			
General Government	60,351	---	---
Public Safety	43,029	---	---
Public Works	27,761	29,467	22,865
Community Economic Development	2,117	---	---
Recreation and Culture	14,243	---	---
Capital Outlay	---	44,846	18,376
Other	<u>45,277</u>	<u>---</u>	<u>---</u>
<b>Total Expenditures</b>	<u>192,778</u>	<u>74,313</u>	<u>41,241</u>
<b>Excess of Revenue Over (Under) Expenditures</b>	(28,469)	(31,302)	(3,497)
<b>Other Financing Sources (Uses)</b>			
Transfers In	---	21,000	---
Transfers (Out)	<u>---</u>	<u>---</u>	<u>(21,000)</u>
<b>Total Other Financing Sources (Uses)</b>	<u>---</u>	<u>21,000</u>	<u>(21,000)</u>
<b>Net Change in Fund Balances</b>	(28,469)	(10,302)	(24,497)
<b>Fund Balances – Beginning of Year</b>	<u>27,902</u>	<u>15,506</u>	<u>41,241</u>
<b>Fund Balances – End of Year (Deficit)</b>	<u>\$ (567)</u>	<u>\$ 5,204</u>	<u>\$ 17,824</u>

The notes to financial statements are an integral part of this statement.

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**Other  
Non-Major  
Governmental  
Funds**

\$ ---  
---  
---  
10,280  
1,625  
---

11,905

**Total  
Governmental  
Funds**

\$100,414  
117,786  
22,132  
10,911  
1,625  
4,101

256,969

---  
16,427

---  
---  
---  
---

16,427

(4,522)

60,351  
59,456  
80,093  
2,117  
14,243  
63,222  
45,277

324,759

(67,790)

---  
---

---

(4,522)

15,874

\$ 11,352

21,000  
(21,000)

---

(67,790)

101,603

\$ 33,813

**VILLAGE OF ADDISON**  
**Reconciliation Of The Statement Of Revenues, Expenditures,**  
**And Changes In Fund Balances Of Governmental Statement Of Activities**  
**February 28, 2006**

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<b>Net Change In Fund Balances – Total Governmental Funds</b>	<b>\$ (67,790)</b>
---	--------------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

<b>Add:</b> Capital Outlay	63,222
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<b>Deduct:</b> Depreciation Expense	(29,842)
-------------------------------------	----------

Accounts Receivable - Adjustments - Deferred Income	<u>18,494</u>
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<b>Change In Net Assets Of Governmental Activities</b>	<b><u>\$ (15,916)</u></b>
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**VILLAGE OF ADDISON**  
**Statement of Net Assets**  
**Proprietary Funds**  
**February 28, 2006**

	<b><u>Business-Type Activities - Enterprise Funds</u></b>	<b><u>Governmental Activities</u></b>
	<b><u>Utilities Fund</u></b>	<b><u>Internal Service Fund</u></b>
<b>Assets</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 178,348	\$ 6,369
Due from Other Funds	---	46,575
Accounts Receivable	23,007	1,038
Inventory	7,319	---
Prepaid Expenses	---	---
Noncurrent Assets:		
Restricted Cash	43,899	---
Property and Equipment - Net	<u>1,000,627</u>	<u>7,364</u>
<b>Total Noncurrent Assets</b>	<u>1,044,526</u>	<u>7,364</u>
<b>Total Assets</b>	<u>\$1,253,200</u>	<u>\$61,346</u>
<b>Liabilities</b>		
Current Liabilities:		
Accounts Payable and Accrued Liabilities/Deposits	\$ 9,126	\$ 533
Bonds Payable, Current Portion	<u>34,500</u>	<u>---</u>
<b>Total Current Liabilities</b>	<u>43,626</u>	<u>533</u>
Noncurrent Liabilities:		
Bonds Payable	<u>630,000</u>	<u>---</u>
<b>Total Noncurrent Liabilities</b>	<u>630,000</u>	<u>---</u>
<b>Total Liabilities</b>	<u>673,626</u>	<u>533</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	336,127	7,364
Restricted for Replacement/Retirement	43,899	---
Unrestricted	<u>199,548</u>	<u>53,449</u>
<b>Total Net Assets</b>	579,574	<u>\$60,813</u>
<b>Adjustment to Reflect The Consolidation of Internal Service Fund Activities Related to Enterprise Funds</b>	<u>15,175</u>	
<b>Net Assets of Business-Type Activities on the Government-Wide Statement of Net Assets</b>	<u>\$ 594,749</u>	

The accompanying notes are an integral part of this financial statement.

**VILLAGE OF ADDISON**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For The Year Ended February 28, 2006**

	<b>Business-Type Activities - Enterprise Funds</b>	<b>Governmental Activities</b>
	<b><u>Utilities Fund</u></b>	<b><u>Internal Service Fund</u></b>
<b>Operating Revenues</b>		
Charges for Services	<u>\$119,811</u>	<u>\$58,762</u>
<b>Liabilities</b>		
Salaries and Wages	33,372	14,742
Fringe Benefits	2,308	1,135
Office Expenses	3,926	---
Contractual Services	53,933	---
Supplies and Materials	4,738	28,429
Utilities	8,977	---
Depreciation	47,186	5,010
Other Expenses	<u>25,650</u>	<u>310</u>
<b>Total Operating Expenses</b>	<u>180,090</u>	<u>49,626</u>
<b>Operating Income (Loss)</b>	<u>(60,279)</u>	<u>9,136</u>
<b>Non-Operating Revenues (Expenses)</b>		
Investment Income	5,010	154
Interest Expense	(20,870)	---
Debt Retirement	<u>41,538</u>	<u>---</u>
<b>Total Non-Operating Revenues (Expenses)</b>	<u>25,678</u>	<u>154</u>
<b>Income (Loss) Before Transfers</b>	(34,601)	9,290
<b>Net Assets, Beginning of Year</b>	<u>614,175</u>	<u>51,523</u>
<b>Net Assets, End of Year</b>	<u>\$579,574</u>	<u>\$60,813</u>

The accompanying notes are an integral part of this financial statement.

**VILLAGE OF ADDISON**  
**Reconciliation Of The Statement Of Revenues, Expenditures, To The Statement Of Activities**  
**February 28, 2006**

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**Change In Net Assets – All Enterprise Funds**

\$(34,601)

An internal service fund is used by management to charge the cost of certain equipment usage to individual enterprise funds. The net revenue (expense) attributable to those funds is reported with the business-type activities

7,357

**Change In Net Assets Of Business-Type Activities (Decrease)**

\$(27,244)



**VILLAGE OF ADDISON**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For The Year Ended February 28, 2006**

	<b>Business-Type Activities</b> <b>Enterprise Funds</b>	<b>Governmental</b> <b>Activities</b>
	<b>Utilities Fund</b>	<b>Internal Service Fund</b>
<b>Cash Flows From Operating Activities</b>		
Cash Received from Customers	\$ 135,078	\$ ---
Cash Received Miscellaneous	---	58,431
Cash Payment to Suppliers For Goods and Services/Employees	<u>(128,414)</u>	<u>(48,981)</u>
<b>Net Cash Provided (Used)</b>	<u>6,664</u>	<u>9,450</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Purchase of Capital Assets	(34,792)	---
Bond Principal Payments	(33,750)	---
Bond Interest Payments	(20,870)	---
Bonded Debt Collections	41,538	---
Fund Transfers	<u>---</u>	<u>(30,000)</u>
<b>Net Cash (Used) by Capital and Related Financing Activities)</b>	<u>(47,874)</u>	<u>(30,000)</u>
<b>Cash Flows From Investing Activities</b>		
Investment Income	<u>5,010</u>	<u>154</u>
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>5,010</u>	<u>154</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(36,200)	(20,396)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>258,447</u>	<u>26,765</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 222,247</u>	<u>\$ 6,369</u>
<b>Reconciliation to Statement of Net Assets</b>		
Cash and Cash Equivalents	\$ 178,348	\$ 6,369
Restricted Cash and Cash Equivalents	<u>43,899</u>	<u>---</u>
	<u>\$ 222,247</u>	<u>\$ 6,369</u>

The accompanying notes are an integral part of this financial statement.

**VILLAGE OF ADDISON**  
**Statement of Cash Flows (Concluded)**  
**Proprietary Funds**  
**For The Year Ended February 28, 2006**

	<b>Business-Type Activities - Enterprise Funds</b>	<b>Governmental Activities</b>
	<b><u>Utilities Fund</u></b>	<b><u>Internal Service Fund</u></b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ (34,601)	\$ 9,290
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation/Amortization	47,186	5,010
Changes in Assets and Liabilities:		
Accounts Receivable	15,267	(331)
Due From Other Funds	---	(30,000)
Accounts Payable, Accrued		
Liabilities, Bonds Current Portion	6,115	(4,365)
Other Assets	<u>(1,625)</u>	<u>---</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>32,342</u>	<u>(20,396)</u>
<b>Cash Flows from Capital Activities:</b>		
Acquisition of Capital Assets	<u>(34,792)</u>	<u>---</u>
<b>Net Cash (Used) from Capital Activities</b>	<u>(34,792)</u>	<u>---</u>
<b>Cash Flows From Financing Activities:</b>		
Principal Paid on Bonds	<u>(33,750)</u>	<u>---</u>
<b>Net Cash (Used) from Financing Activities</b>	<u>(33,750)</u>	<u>---</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(36,200)	(20,396)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>258,447</u>	<u>26,765</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 222,247</u>	<u>\$ 6,369</u>

The accompanying notes are an integral part of this financial statement.

**VILLAGE OF ADDISON**  
**Notes to Financial Statements**  
**February 28, 2006**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Village of Addison, Michigan conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

**A. Reporting Entity**

Village of Addison, Michigan is governed by an elected council. The accompanying financial statements present the government for which government is considered to be financially accountable.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**VILLAGE OF ADDISON**  
**Notes to Financial Statements**  
**February 28, 2006**

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Property taxes, franchise taxes, intergovernmental revenue licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

**The General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**The Major Street Fund** is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of Village streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

**The Local Street Fund** is a Special Revenue Fund that receives state and local funding for the purpose of construction and maintenance of Village streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The government reports the following major proprietary funds:

The Utilities Fund accounts for acquisition, operation and maintenance of the Village's waste water and water system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-side and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities and enterprise funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Utilities Funds are charges to customers for sales and services. The Utilities Funds are also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**VILLAGE OF ADDISON**  
**Notes to Financial Statements**  
**February 28, 2006**

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**D. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**E. Assets, Liabilities, and Net Assets or Equity**

1. **Bank Deposits and Investment** – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loans associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. **Receivables and Payables** – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."
3. **Prepaid Items** – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method.
4. **Inventories** – All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.
5. **Restricted Assets** – Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.
6. **Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,500 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**VILLAGE OF ADDISON**  
**Notes to Financial Statements**  
**February 28, 2006**

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The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land Improvements	20 - 50
Building	10 - 50
Machinery, Equipment, And Furnishings	5 - 35
Utility Systems	50 - 100
Infrastructure	15 - 100
Vehicles	5 - 15

7. **Compensated Absences** - It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirement.

Obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

8. **Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

- A. **Budgetary Information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of January of each year, the Village Council presents the proposed budget for review and holds public hearings and a final budget is adopted.

**VILLAGE OF ADDISON**  
**Notes to Financial Statements**  
**February 28, 2006**

The appropriated budget is prepared by fund, function and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is with the Village Council.

**B. Excess of Expenditures Over Appropriations In Budgeted Funds -** P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended February 28, 2006, the government incurred expenditures in excess of amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General Government:			
Community Promotion and Economic Development	\$ 1,950	\$ 2,117	\$167
Public Safety:			
Police	22,500	22,594	94
Public Works:			
Street Lighting	9,700	10,537	837
Other	8,025	8,140	115

**NOTE 3 – DEPOSITS AND INVESTMENTS**

The government unit's deposits and investment policy are in accordance with statutory authority.

Investments made by the Village are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

- Category 1:** Insured or registered, or securities held by the Village or its agent in the Village's name.
- Category 2:** Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name.
- Category 3:** Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Village's name.

	<u>Category 1</u>	<u>2</u>	<u>3</u>	<u>Carrying Value</u>	<u>Market Value</u>
Cash and Cash Equivalents	<u>\$300,535</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$300,535</u>	<u>\$300,535</u>
	<u>\$300,535</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$300,535</u>	<u>\$300,535</u>

**VILLAGE OF ADDISON**  
**Notes to Financial Statements**  
**February 28, 2006**

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**Balance Sheet Cash And Cash Investments**

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosures for the Village's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Insured (FDIC) (FSLIC)	\$100,000
Uninsured:	
Uncollateralized	<u>200,535</u>
<b>Total</b>	<b><u>\$300,535</u></b>

Total cash consist of: Cash and cash investments of \$256,636 and restricted cash of \$43,899.



**VILLAGE OF ADDISON**  
**Notes to Financial Statements**  
**February 28, 2006**

**NOTE 4 – CAPITAL ASSETS**

Capital assets activity for the year ended February 28, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b><u>Governmental Activities</u></b>				
Capital Assets, Not Being Depreciated:				
Other	\$ 20,876	\$ ---	\$ ---	\$ 20,876
	<u>20,876</u>	<u>---</u>	<u>---</u>	<u>20,876</u>
Capital Assets, Being Depreciated:				
Buildings	121,813	---	---	121,813
Equipment	147,150	---	---	147,150
Infrastructure	495,357	63,222	---	558,579
<b>Total Capital Assets Being Depreciated</b>	<u>764,320</u>	<u>63,222</u>	<u>---</u>	<u>827,542</u>
Less Accumulated Depreciation For:				
Buildings	(27,216)	(2,359)	---	(29,575)
Equipment	(125,226)	(5,772)	---	(130,998)
Infrastructure	(249,827)	(21,711)	---	(271,538)
<b>Total Accumulated Depreciation</b>	<u>402,269</u>	<u>(29,842)</u>	<u>---</u>	<u>(432,111)</u>
<b>Total Capital Assets, Being Depreciated, Net</b>	<u>362,051</u>	<u>33,380</u>	<u>---</u>	<u>395,431</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 382,927</u>	<u>\$ 33,380</u>	<u>\$ ---</u>	<u>\$ 416,307</u>
<b><u>Business-Type Activities</u></b>				
Capital Assets, Being Depreciated:				
Buildings and Systems	\$1,770,481	\$ 37,492	\$ ---	\$1,807,973
Equipment	69,754	---	---	69,754
<b>Total Capital Assets Being Depreciated</b>	<u>1,840,235</u>	<u>37,492</u>	<u>---</u>	<u>1,877,727</u>
Less Accumulated Depreciation For:				
Buildings and Systems	(787,822)	(41,657)	---	(829,479)
Equipment	(42,092)	(5,529)	---	(47,621)
<b>Total Accumulated Depreciation</b>	<u>(829,914)</u>	<u>(47,186)</u>	<u>---</u>	<u>(877,100)</u>
<b>Total Capital Assets, Being Depreciated, Net</b>	<u>1,010,321</u>	<u>(9,694)</u>	<u>---</u>	<u>1,000,627</u>
<b>Business Type Activities Capital Assets, Net</b>	<u>\$1,010,321</u>	<u>\$ (9,694)</u>	<u>\$ ---</u>	<u>\$1,000,627</u>

**VILLAGE OF ADDISON**  
**Notes to Financial Statements**  
**February 28, 2006**

Depreciation expense was charged to functions/programs of the Village as follows:

**Governmental Activities:**

General Government	\$ 837
Public Safety	2,200
Public Works	21,795
Capital Assets Held By The Government's Internal Service Funds Are Charged To The Various Functions Based On Their Usage Of The Assets.	<u>5,010</u>

<b>Total Depreciation Expense Governmental Activities</b>	<b><u>\$29,842</u></b>
---	------------------------

**Business-Type Activities:**

Utilities	<u>\$47,186</u>
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<b>Total Depreciation Expense Business-Type Activities</b>	<b><u>\$47,186</u></b>
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**NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES**

At February 28, 2006, the following were interfund receivables and payables in the fund statement.

<b><u>Fund</u></b>	<b><u>Interfund Receivables</u></b>	<b><u>Interfund Payables</u></b>
General	\$ ---	\$49,875
Park Improvement	3,300	---
Internal Service Fund	<u>46,575</u>	<u>---</u>
	<b><u>\$49,875</u></b>	<b><u>\$49,875</u></b>

**VILLAGE OF ADDISON**  
**Notes to Financial Statements**  
**February 28, 2006**

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**NOTE 6 – TRANSFERS**

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted, to or allowed for debt services from the funds collecting the receipts to the debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs, accounted for in other funds in accordance with budgetary authorizations.

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Street Fund	\$21,000	\$ ---
Local Street Fund	---	21,000
	<u>\$21,000</u>	<u>\$21,000</u>

**NOTE 7 – PROPERTY TAXES:**

The Village collects its own property taxes within its jurisdiction. Village property tax revenues are recognized as revenues in the fiscal year levied to the extent that they result in current receivables.

**VILLAGE OF ADDISON**  
**Notes to Financial Statements**  
**February 28, 2006**

**NOTE 8 - LONG TERM DEBT**

Long-term debt consists of the following:

	<u>Balance</u> <u>March 1,</u> <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>February 28,</u> <u>2006</u>
Bonds Payable - Rollin-Woodstock Sanitary Drain	\$698,250	\$ ---	\$33,750	\$664,500
<b>Total</b>	<u>\$698,250</u>	<u>\$ ---</u>	<u>\$33,750</u>	<u>\$664,500</u>

**Bond Payable - Rollin - Woodstock Drain Improvement**

Bonds issued by Lenawee County for Rollin - Woodstock Sanitary Drain, 5184-01.

Bonds are obligated by three municipalities as follows:

Village of Addison	15%
Township of Rollin	61%
Township of Woodstock	24%

Total refinanced bond issue: \$5,080.00

Interest rate: variable

Principle payment due: October 1<sup>st</sup> each year

Interest payment made semi-annual: October 1<sup>st</sup> and April 1<sup>st</sup>

Amount of Issue: Village of Addison \$762,000

Bonds payable - February 28, 2005	\$698,250
(Less) Payment made during fiscal year	<u>(33,750)</u>
Balance at February 28, 2006	<u>\$664,500</u>

Principal payments over next five years are as follows:

October 1, 2006	\$34,500
October 1, 2007	36,000
October 1, 2008	36,000
October 1, 2009	36,000
October 1, 2010	36,000

**VILLAGE OF ADDISON**  
**Notes to Financial Statements**  
**February 28, 2006**

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**Maturities of Long-Term Debt**

Maturities for the next five years of long-term debt are as follows:

<u>Years</u>	<u>Amounts</u>
2007	\$ 34,500
2008	36,000
2009	36,000
2010	36,000
2011	36,000
There After	<u>486,000</u>
	<u>\$664,500</u>

**NOTE 9 – PENSION PLAN**

The Village of Addison contributes to IRA's for eligible individuals.

**NOTE 10 – OTHER INFORMATION**

**Risk Management**

The government is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended February 28, 2006, the government carried insurance through various commercial carriers, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

**VILLAGE OF ADDISON**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For The Year Ended February 28, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b><u>Beginning of Year Fund Balance</u></b>				
<b>Resources (Inflows)</b>	\$ 20,000	\$ 20,000	\$ 27,902	\$ 7,902
Taxes and Assessments	75,700	75,700	74,941	(759)
Intergovernmental	61,000	61,000	62,747	1,747
Licenses and Permits	500	500	272	(228)
Charges for Services	30,500	30,500	21,860	(8,640)
Interest and Rentals	100	100	388	288
Other	2,975	2,975	4,101	1,126
Transfer from Other Funds	<u>10,000</u>	<u>10,000</u>	<u>---</u>	<u>(10,000)</u>
 <b>Amounts Available for Appropriation</b>	 <u>200,775</u>	 <u>200,775</u>	 <u>192,211</u>	 <u>(8,564)</u>
 <b><u>Charges to Appropriations (Outflows)</u></b>				
<b>General Government</b>				
Village Council	6,400	4,715	4,685	30
Cemetery	11,900	10,750	10,529	221
Office - Bookkeeper	5,950	6,075	6,047	28
Treasurer	8,200	7,900	7,890	10
Clerk	12,000	11,710	11,632	78
Elections	850	690	663	27
Professional Services	2,500	3,000	2,985	15
Buildings and Grounds	23,400	16,220	15,920	300
 <b>Public Safety</b>				
Police	19,500	22,500	22,594	(94)
Fire	20,325	20,700	20,435	265
Inspections	750	---	---	---
 <b>Community Promotion and Economic Development</b>	 1,250	 1,950	 2,117	 (167)
 <b>Recreation and Culture</b>				
Parks and Recreation	16,000	14,770	14,243	527
 <b>Public Works</b>				
Street Lighting	9,500	9,700	10,537	(837)
Sanitation	3,000	3,000	2,991	9
Other	8,600	8,025	8,140	(115)
Leaf Program	4,000	6,100	6,093	7
 <b>Miscellaneous</b>	 <u>42,675</u>	 <u>53,125</u>	 <u>45,277</u>	 <u>7,848</u>
 <b>Total Charges to Appropriations</b>	 <u>196,800</u>	 <u>200,930</u>	 <u>192,778</u>	 <u>8,152</u>
 <b>Ending of Year Fund Balance</b>	 <u>\$ 3,975</u>	 <u>\$ (155)</u>	 <u>\$ (567)</u>	 <u>\$ (412)</u>

**VILLAGE OF ADDISON**  
**Budgetary Comparison Schedule**  
**Major Street Fund (Major Special Revenue Fund)**  
**For The Year Ended February 28, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b><u>Beginning of Year Fund Balance</u></b>				
<b>Resources (Inflows)</b>	\$20,300	\$20,300	\$15,506	\$ (4,794)
Intergovernmental	37,500	37,500	43,011	5,511
Transfers from Other Funds	<u>20,310</u>	<u>20,310</u>	<u>21,000</u>	<u>690</u>
<b>Amounts Available for         Appropriation</b>	<u>78,110</u>	<u>78,110</u>	<u>79,517</u>	<u>1,407</u>
<b><u>Charges to Appropriations (Outflows)</u></b>				
Public Works	<u>78,110</u>	<u>78,110</u>	<u>74,313</u>	<u>3,797</u>
<b>Total Charges to Appropriations</b>	<u>78,110</u>	<u>78,110</u>	<u>74,313</u>	<u>3,797</u>
<b>Ending of Year Fund Balance</b>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 5,204</u>	<u>\$ 5,204</u>

**VILLAGE OF ADDISON**  
**Budgetary Comparison Schedule**  
**Local Street Fund (Major Special Revenue Fund)**  
**For The Year Ended February 28, 2006**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
<b><u>Beginning of Year Fund Balance</u></b>				
<b>Resources (Inflows)</b>	\$ ---	\$ ---	\$42,321	\$ 42,321
Intergovernmental	10,000	10,000	12,028	2,028
Property Taxes	29,350	29,350	25,473	(3,877)
Interest Income	---	---	243	243
<b>Amounts Available for     Appropriation</b>	<u>39,350</u>	<u>39,350</u>	<u>80,065</u>	<u>40,715</u>
<b><u>Charges to Appropriations (Outflows)</u></b>				
Public Works	39,350	39,350	41,241	(1,891)
Transfer to Other Funds	---	---	21,000	(21,000)
<b>Total Charges to Appropriations</b>	<u>39,350</u>	<u>39,350</u>	<u>62,241</u>	<u>(22,891)</u>
<b>Ending of Year Fund Balance</b>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$17,824</u>	<u>\$ 17,824</u>



**VILLAGE OF ADDISON  
Combining Balance Sheet  
Non-Major Governmental Funds  
February 28, 2006**

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	<u><b>Special Revenue Funds</b></u>		
	<b>Fire Improvement Fund</b>	<b>Park Improvement Fund</b>	<b>Total Non-Major Governmental Funds</b>
<u><b>Assets</b></u>			
Cash	\$4,800	\$3,252	\$ 8,052
Due from Other Funds	<u>---</u>	<u>3,300</u>	<u>3,300</u>
<b>Total Assets</b>	<u>\$4,800</u>	<u>\$6,552</u>	<u>\$11,352</u>
 <u><b>Fund Balance</b></u>	 <u>\$4,800</u>	 <u>\$6,552</u>	 <u>\$11,352</u>
 <b>Total Liabilities And Fund Balances</b>	 <u>\$4,800</u>	 <u>\$6,552</u>	 <u>\$11,352</u>

**VILLAGE OF ADDISON**  
**Combining Statement of Revenues, Expenditures and Changes In Fund Balance**  
**Non-Major Governmental Funds**  
**For The Year Ended February 28, 2006**

	<u><b>Special Revenue Funds</b></u>		
	<u><b>Fire Improvement Fund</b></u>	<u><b>Park Improvement Fund</b></u>	<u><b>Total Non-Major Governmental Funds</b></u>
<u><b>Revenues:</b></u>			
Interest and Rents	\$ 10,280	\$ ---	\$ 10,280
Contributions	<u>---</u>	<u>1,625</u>	<u>1,625</u>
<b>Total Revenue</b>	<u>10,280</u>	<u>1,625</u>	<u>11,905</u>
<u><b>Expenditures:</b></u>			
Public Safety	<u>16,427</u>	<u>---</u>	<u>16,427</u>
<b>Total Expenditures</b>	<u>16,427</u>	<u>---</u>	<u>16,427</u>
<u><b>Excess of Revenues Over (Under) Expenditures</b></u>	<u>(6,147)</u>	<u>1,625</u>	<u>(4,522)</u>
<u><b>Other Financing Sources</b></u>			
<u><b>(Uses):</b></u>			
Operating Transfers In	---	---	---
Operating Transfers (Out)	<u>---</u>	<u>---</u>	<u>---</u>
<b>Total Other Financing Sources (Uses)</b>	<u>---</u>	<u>---</u>	<u>---</u>
<u><b>Excess of Revenues and Other Sources Over (Under) (Expenditures and Other Uses</b></u>	<u>(6,147)</u>	<u>1,625</u>	<u>(4,522)</u>
<u><b>Beginning Fund Balance</b></u>	<u>10,947</u>	<u>4,927</u>	<u>15,874</u>
<u><b>Ending Fund Balance</b></u>	<u>\$ 4,800</u>	<u>\$ 6,552</u>	<u>\$ 11,352</u>

# PHILIP R. RUBLEY

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MEMBERS OF  
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May 5, 2006

**Honorable Mayor and Members  
Of The Village Council  
Village of Addison  
Addison, Michigan 49220**

We have examined the combined financial statements of the Village of Addison, Michigan and the combining, individual fund and account group financial statements of the Village as of and for the year ended February 28, 2006 and have issued our report thereon dated May 5, 2006. As a part of our examination, we made a study and evaluation of the Village's system of internal accounting control to the extent we considered necessary to evaluate the system as required by auditing standards generally accepted in the United States of America. Under these standards, the purposes of such an evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statement and to assist the auditor in planning and performing his examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to the execution and recording of transactions or with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements made in accordance with auditing standards generally accepted in the United States of America, including the study and evaluation of the Village's system of internal accounting control for the year ended February 28, 2006, that was made for the purpose set forth in the first paragraph of this report, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

## **1. Documentation**

All expenditures should be supported by invoices and other documentation to support the payment of the expenditures. We found isolated cases where invoices were not attached to expenditures, we felt needed documentation. We were able to satisfy ourselves through additional testing to the validity of these expenses.

2. **Water Meters**

It was noted through our test work that water meters installation of improvements are being made. The Village needs to continue these steps in improving the meters.

3. **Water Rates & Costs**

Substantial increases in costs and slight increase in revenue could create a problem in the future. The improvements with new meters could increase revenues, continue to monitor and consider rate increases and cost savings measures.

4. **Fixed Assets**

The Village needs to keep track of disposed items each year to properly maintain their fixed assets schedules established.

5. **Deficit General Fund Balance**

A deficit reduction plan must be established to eliminate general fund deficit.

The above mentioned conditions were considered in determining the nature, timing, and extent of audit tests to be applied to our examination of the financial statements, and this report does not modify our report dated May 5, 2006, on such financial statements.

If we can be of any further assistance, please do not hesitate in contacting us.

Respectfully Submitted,



Philip R. Rubley, CPA